

Service Date: March 5, 1991

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER of the Application of)	
the CITY OF CONRAD for Authority to)	UTILITY DIVISION
Increase Rates and Charges for Sewer)	DOCKET NO. 90.9.62
Service in its Conrad, Montana Service)	ORDER NO. 5542
Area.)	
_____)	

* * * * *

APPEARANCES

FOR THE APPLICANT:

Tom Hammerbacker, Mayor, City of Conrad, 411 1/2 South Main, Conrad, Montana 59425.

FOR THE COMMISSION:

Martin Jacobson, Staff Attorney, 2701 Prospect Avenue, Helena, Montana 59620.

Ron Woods, Rate Analyst, 2701 Prospect Avenue, Helena, Montana 59620.

BEFORE:

Danny Oberg, Commissioner and Hearing Examiner

BACKGROUND

1. On September 26, 1990, the City of Conrad (Applicant or City) applied to this Commission for authority to increase rates and charges for sewer service to its customers in its Conrad, Montana service area. The Applicant requested an average increase of approximately 445%, which constitutes an increase of approximately \$61,254 in annual revenues.

2. On January 29, 1990, following issuance of proper notice a hearing was held in the City Council Chambers, Conrad, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed water rate adjustment. At the close of the public hearing, all parties stipulated to the issuance of a final order in this docket

ANALYSIS AND FINDINGS OF FACT

3. At the public hearing the Applicant presented the testimony and exhibits of the following witnesses:

Tom Thomas, Consulting Engineer
 Tom Thode, City Clerk
 Tom Hammerbacker, Mayor
 Ralph Donahoo, City Supervisor

These witnesses testified on the need for the proposed capital improvements, the estimated cost of the proposed capital improvements, the financing of proposed capital improvements, debt service obligations, current funding sources of the sewer utility and rate structure.

CAPITAL IMPROVEMENT PROGRAM

4. In its application Conrad has set forth a proposed capital improvement program for the sewer utility. The total estimated cost of the capital improvements as outlined by the Town is \$340,000. The following Table 1, sets out the proposed costs associated with the capital improvements program.

TABLE 1

1.	Lift Station Alarm & Monitor	\$ 3,000
2.	Replace Lift Station	\$160,000
3.	Sewer Line Extension	\$ 23,000
4.	Manhole Replacements	\$ 27,600
5.	Manhole Cover Replacements	\$ 18,400
6.	De-root & TV Inspection	\$ 24,000
7.	Repair and Seal Leaks	\$ 7,000
8.	Riprap Lagoon Banks	\$ 13,000
9.	Aeration Equipment Automatic Control and Monitor	\$ 18,000
10.	Lagoon Flow Meter	\$ 12,000
11.	Capitalization of Reserve Fund	<u>\$ 34,000</u>
	Total	\$340,000

5. The City proposes that the capital improvements under consideration in this Docket be funded from a Revenue Bond issue having a term of 20 years and a maximum interest rate of

7.5%, with the requirements that the City have a reserve fund in an amount equal to one years principal and interest payment on the bond and provide debt service coverage of 125%.

6. The City's proposed sewer system improvement program, as testified to by the City's witnesses, includes the replacement of a lift station, monitors and controls for the lift stations, replacement of manholes, replacement of manhole covers and lids cleaning, derooting and tv inspection of the collective system and repairs to sewage lagoons.

7. The Applicant's witnesses testified that significant problems are being experienced with certain components of the sewer utility's existing facilities. Some of the collection system deficiencies identified by the witnesses include: a 21 year old lift station east of the track that has become a maintenance problem, manholes have deteriorated to the point that they are unsafe to enter and could fail causing a blockage in sewage flow, manhole rings and covers that have deteriorated to the point that they are allowing infiltration during wet weather, and sewer lines are plugging due to root intrusions.

8. The City's witnesses also testified that improvements are needed to the treatment facility. The witnesses indicated that erosion has occurred on the downwind side of the sewage lagoon cell creating a need for 400 feet of Riprap to insure the integrity of the lagoon. It was also indicated that the existing aeration equipment needs an automatic control and monitor for the dissolved oxygen levels. This equipment would provide energy savings through the automatic control of the operation of the aeration equipment and provide a record of the overall performance of the treatment facility.

9. The Commission finds, based upon the testimony in this Docket, that the capital improvement program as proposed by Conrad is reasonable prudent and therefore accepts Conrad's assertion that the improvements outlined in the filing need to be constructed.

DEBT SERVICE

10. The City of Conrad proposes to finance the capital improvements to the sanitary sewer system outlined in this proceeding through the issuance of \$340,000 in revenue bonds. The proposed revenue bonds will have a term of 20 years and carry a maximum interest rate of 7.5%.

11. In any sale of municipal bonds, the purchasers of the bonds must be assured that their investment is secure. To provide this security, the municipality makes a promise, called a covenant, to do certain things that will ensure that it will always be able to pay the bond's principal and interest as they come due. In this instance, the City proposes to include covenants agreeing to the establishment of a bond reserve fund in an amount equal to the maximum principal and interest payment due on the bonds, amounting to \$34,000, which will be capitalized from bond proceeds and a coverage ratio of 125%.

12. The Commission finds the bond covenants, establishment of a reserve fund, and the 125% coverage ratio, to be among the standard requirements for the issuance of revenue bonds and, therefore, accepts the requirements.

13. The Commission finds the issuance of \$340,000 in revenue bonds with a term of 20 years and a maximum interest rate of 7.5%, with the requirements that the City establish a bond reserve in an amount equal to one year's principal and interest payment on the bonds and provide a debt service coverage of 125%, is appropriate.

14. When the City completes the sale of the proposed revenue bonds it will incur an average annual principal and interest payment on the outstanding revenue bonds of approximately \$33,500. It will also incur the obligation to have a net operating income of at least \$8,500 to meet the requirement that it achieve a 125% coverage ratio. The required net operating income is calculated by multiplying the maximum principal and interest payment on outstanding bonds by 25% ($\$34,000 \times .25 = \$8,500$).

OPERATION AND MAINTENANCE EXPENSE

15. The test year operation and maintenance expenses totaling \$33,000 were not challenged by any party participating in this proceeding. The test year operation and maintenance expenses presented by the Applicant are accepted by the Commission.

16. The Commission finds the following test year operating revenue deductions to be reasonable:

Operating Expense	\$33,000
Debt Service	\$33,500
Debt Service Coverage	<u>\$ 8,500</u>
TOTAL	\$75,000

The test year expense assumes full annualized costs for the proposed revenue bond issue. The Commission chooses to calculate expenses in this manner, as it is the most reasonable way of accounting for the effect of the proposed bond issue on the operating statement of the utility.

REVENUE NEED

17. Conrad indicated that under present rates annual revenue generation would be approximately \$13,746. The test period operating revenues were not a contested issue in this case and are accepted by the Commission.

18. The Commission, based upon the Findings of Fact contained herein, finds that the Applicant should be allowed to increase revenues by \$61,254 once revenue bonds are sold. This requirement is calculated as follows:

Operating Revenue	\$13,746
LESS:	
Operating Expense	\$33,000
Debt Service	\$33,500
Debt Service Coverage	<u>\$ 8,500</u>
Total Revenue Requirement	\$75,000
REVENUE DEFICIENCY	\$61,254

19. At present the sewer utility is generating \$13,746 in annual revenues from user charges and incurring operating expenses of \$33,000 annually. Based on the preceding the Commission finds that the Applicant is entitled to an immediate increase in rates of \$19,254 (\$33,000 - \$13,746 = \$19,254).

RATE DESIGN

20. The City's proposed rate design was not challenged by any party participating in this proceeding. The Commission's examination of the rate structure indicates that the Applicant has attempted to equitably distribute the cost of providing service to the various customer classifications and it is, therefore accepted.

21. Although the Commission has accepted the proposed rate design of the Applicant the Commission would like to note that for commercial customers the Applicant has not provided for an exemption process in cases where the customer has significant irrigation requirements. The Commission finds that for commercial customers having significant irrigation requirements the Applicant should either provide a separate irrigation meter or use winter average water consumption for purposes of calculating the sewage charge.

CONCLUSIONS OF LAW

1. The Applicant, the City of Conrad, is a public utility as defined in Section 69-3-101, MCA. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's rates. Title 69, Chapter 7, MCA.

2. The Commission has provided adequate public notice and an opportunity to be heard as required by Section 69-3-303, MCA, and Title 2, Chapter 4, MCA.

3. The rates and rate structure approved in this order are just and reasonable. Sections 69-3-201, and 69-3-330, MCA.

ORDER

NOW, THEREFORE, IT IS ORDERED THAT:

1. The City of Conrad shall file rate schedules, consistent with the Findings of Fact herein, for its Conrad, Montana service area.

2. The City of Conrad is authorized to issue revenue bonds in the amount of \$340,000 with the requirements as outlined in Finding Fact No. 13.

3. The City of Conrad is authorized to immediately file increased rates for recovery of operation and maintenance costs. The rates shall become effective upon Commission approval.

4. The rates approved herein for the revenue bond issue shall not become effective until the tariffs, revenue bond ordinance(s), and necessary calculations relating to debt costs have been submitted for review by the Commission.

DONE IN OPEN SESSION at Helena, Montana, this 4th day of March, 1991, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

HOWARD L. ELLIS, Chairman

DANNY OBERG, Vice Chairman

WALLACE W. "WALLY" MERCER,
Commissioner

JOHN B. DRISCOLL, Commissioner

BOB ANDERSON, Commissioner

ATTEST:

Ann Peck
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.